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## China, Peoples Republic of

### Tree Nuts

### Annual

### 2006

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**Report Highlights:**

Walnut production is forecast at 425,000 MT in MY 2006, up nearly 4 percent from the previous year, as a result of an anticipated bumper harvest in Yunnan and new plantations. Walnut acreage is forecast at 1.38 million hectares, up 15 percent from last year. Walnut production in China is expected to grow at a moderate rate in the near future, however the pace is expected to accelerate in five to ten years when new plantings start bearing fruit. Consumption for nuts is also growing moderately, especially for walnuts. Almond and walnut imports are likely to rise.

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**Executive Summary**

Walnut production is forecast at 425,000 MT in MY 2006, up nearly 4 percent from the previous year, as a result of an anticipated bumper harvest in top producing province-Yunnan and new bearings from recent plantings. Rapid production growth is expected to slow down in 2006 due to the impact of heavy snowfall on the Shanxi crop. Walnut acreage continues to increase at rapid pace and the area is forecast at 1.38 million hectares in MY 2006, up 15 percent from last year. Production is expected to accelerate in the next 5 to 10 years when new plantings begin to bear fruit. Almond and pistachio production is minor.

Nut consumption shows moderate growth in tandem with rising incomes. Walnut consumption is growing at a faster pace due to the marketing of walnut health properties and newly developed walnut products. Overall nut prices remain high with the exception of walnut prices, however, nuts are considered snack foods by Chinese and have many alternatives. The majority of nuts are sold between mid-Autumn and the Chinese Lunar New Year.

Walnut exports in MY 2006 may drop from the previous level due to crop failure in Shanxi, a major producer of walnut exports. Exporters are also facing difficulties sourcing walnuts with commodity prices soaring and added competition from buyers tightening supplies available for export. Almond imports may increase given lower world prices; demand for walnut imports is expected to remain strong. Pistachio imports will decrease due to high prices and the availability of lower priced nuts and other snack foods.

Although the central Chinese government does not provide direct support to walnut producers, a national forestation program encourages farmers to convert grain crops on slope land into forestry. That, in turn will help increase the plantation of walnuts. Walnut trees are classified as ecological trees and the government program has economic incentives that support new inputs.

U.S. nuts are distinguished as high-quality products but are also higher priced. There is an opportunity for U.S. nuts in bakery and confectionary industries, especially in the emerging markets in western cities. In the long run, more efforts should be placed on promoting health and nutritional facts about nuts through public outreach programs that include seminars and media campaigns.

**Production****Snowstorm in Shanxi slows down walnut production**

Walnut production is forecast at 425,000 MT in MY 2006, up nearly 4 percent from the previous year, primarily as a result of an anticipated bumper harvest in the top producing province of Yunnan and because new plantings across China have begun to bear fruit. The rapid production growth in recent years is likely to slow down this season due to a devastating snowfall in early April in Shanxi. The heavy snowfall killed nearly 90 percent of buds. The MY 2005 production is estimated at 410,000 MT, up slightly from Post's previous estimate of 388,000 MT, echoing industry expectations. The Chinese National Bureau of Statistics published a preliminary estimate for the MY 2005 crop at 499,000 MT, but high market prices do not support this estimate. Industry sources indicate local forestry departments tend to embellish the production numbers reported in order to assure forestation funding from the central government (see Policy).

**Walnut plantation expands quickly with great output potential in five years**

The walnut acreage is forecast at 1.38 million hectares in MY 2006, up 15 percent from the previous year, driven by market incentives and government policies. The MY 2005 planted area is estimated at 1.2 million hectares, up from Post's previous estimate of 1,009,800 hectares and in line with findings from recent crop tours. Walnut trees are normally planted on slopes and each rural household owns a small piece ranging from 0.2 to 1 hectare. The majority of walnut farmers do not carefully manage their crops. For example, they hardly water, trim, or apply pesticides and fertilizers to their orchards, resulting in very low yields. In north and northwest China, water shortages are becoming a serious problem. Older trees in these areas are dying due to drought conditions. New plantings normally grow out of seedlings grafted from existing varieties. Post estimates that more than one third of walnut trees are non-bearing at this point. Walnut production in China is likely to rise at a moderate rate in the near future, however the pace is expected to accelerate in five to ten years when the new plantings start bearing fruit.

**Unfavorable climate and underdeveloped management limit almond and pistachio production**

China produces limited quantities of other nuts like almonds and pistachios. Almonds are grown mainly in the Northwestern Xinjiang province where nearly 6,000 hectares of orchards are in place, however, poorly managed orchards with little inputs by farmers have led to very low yields. The total production in Xinjiang is estimated at more than 2,000 MT, but this year's output will be extremely low because cold February temperatures destroyed the crop. Although Xinjiang government has an ambitious plan to plant 67,000 hectares of almonds during the 11<sup>th</sup> Five-Year-Plan (2006-2010), the industry doubts they can achieve that goal given the lack of resources and current management practices. Almonds are also grown in other provinces like Gansu, Shanxi, and Shandong, but production is relatively low as these are new plantings that do not yet bear fruit, while the old trees are either plagued by pests or disease-ridden.

Xinjiang pistachio production volume is minimal. Xinjiang's Kashi area plans to plant some 1,000 hectares of pistachios, but industry sources indicate that the crop is likely to fail given unfavorable cold winter conditions in the area.

## Consumption

### Walnut leads nut consumption for its health benefits

In China, most tree nuts are considered snack foods and therefore, nut consumption volume increases moderately every year along with rising incomes. Some sources say nut consumption is increasing at 5 percent a year. It is long believed by Chinese consumers that walnuts are good for brains and kidneys. Another factor that is driving domestic demand and consumption for walnuts are newly developed products, including in-shell roasted and salted walnuts, walnut candies, walnut oil, and walnut powders. China consumers respond well to new varieties, especially in the snack food sector.

Nut consumption patterns vary by region. People living in North and West China, especially those from the western province of Xinjiang who consume more almonds than people living in southern China; pistachios are favored by people living in central China's Jiangsu and Zhejiang provinces; consumers in the northeast provinces traditionally prefer hazelnuts; yet walnuts are popular in all areas of China. The major consumption areas for tree nuts are large cities like Beijing, Shanghai and Guangzhou, however emerging markets like Chongqing and Chengdu are quickly catching up.

### Nut prices remain high for most Chinese; consumers have many alternatives

Because nuts are perceived as snack foods, Chinese consumers tend to be sensitive to prices and will often substitute with other nuts or consume alternative snack foods, especially for products like almonds, pistachios, macadamia nuts, and hazelnuts. If the price of one type of nut rises, consumption will be capped and shift to other lower-priced nuts. The peak consumption season is the Chinese Lunar New Year otherwise known as the Spring Festival. Trade sources indicate that about 70 percent of nut products are sold between Mid-Autumn Festival and the Chinese New Year (September-February) even though prices may jump to their highest levels.

## Trade

### Walnut exports likely down due to crop failure in Shanxi

China exports mostly shelled walnuts that are produced domestically. The main export destinations are Europe, Japan, Southeast Asia, and the Middle East. Chinese walnut exporters are having a difficult time sourcing products with farm gate prices rising and different buyers competing for raw materials. Exporters are expected to face more difficulties this year given the fact that production in Shanxi, one of the major sources of exported walnuts, will drop drastically. In addition, Japan's positive list system and Europe's new food safety regulation will make it more difficult for China to export agricultural products to these destinations. Therefore, Chinese walnut export volume is expected to fall from the previous year.

Chinese processors re-export imported tree nuts, particularly U.S. pistachios, to Europe and the United States after processing and re-packing. The current volume is not significant but is increasing. Processors mostly use the private labels of the third country.

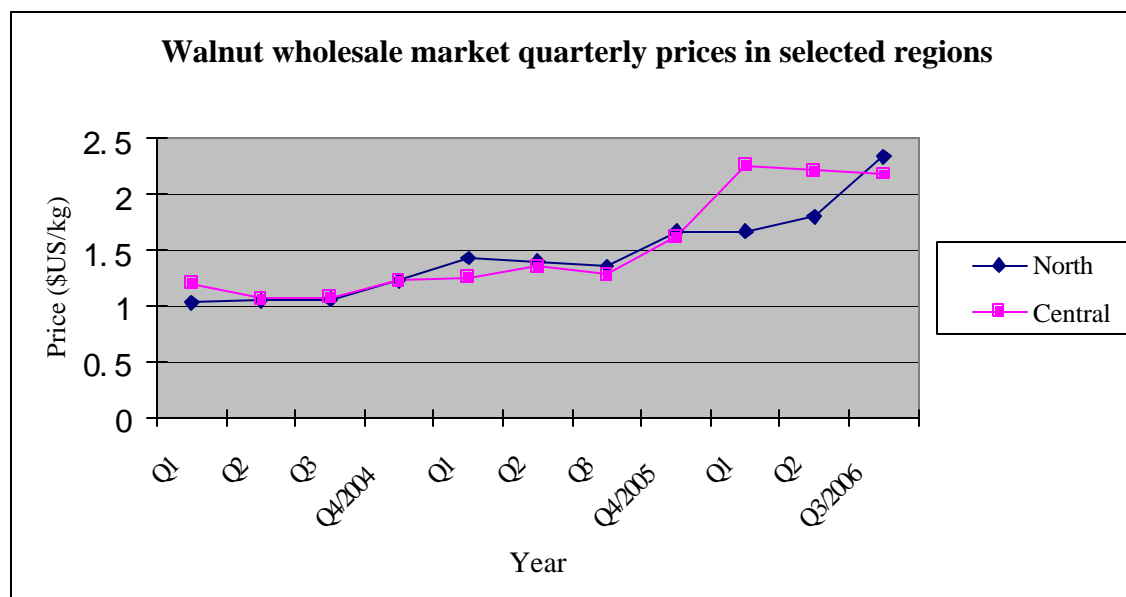
### Almond and walnut imports expected to increase

Despite appreciation of the Chinese Renminbi, China's import volumes for nuts depend largely on world prices. Almonds prices in futures markets are lower than the previous years in anticipation of a bumper harvest in California this season. This is likely to stimulate almond imports in China if prices were to slightly drop. The Shanxi walnut crop failure may also generate buying interest from Chinese importers. The United States remains the single largest exporter of walnuts to China. In contrast, imports of pistachios are likely to drop given current high world prices.

U.S. pistachio exporters face fierce competition from their Iranian counterparts due to lower prices. In 2006, almost all U.S. pistachios were processed for re-export back to the United States and the European Union.

Most nut imports enter Guangdong via the port of Hong Kong. Nuts are processed and packed in the southern provinces and distributed to other regions of China or shipped to third countries. Although smuggled or grey channel imports are declining in the wake of government regulation enforcement, local buyers manage to import nuts from Hong Kong at lower costs.

### Price



Note: exchange rate: 1\$US = 8.0 RMB; North region covers Beijing, Tianjin, Shandong, Shanxi, Inner Mongolia, and Hebei; Central region covers Shanghai, Anhui, Henan, Hunan, Hubei, Jiangsu, and Zhejiang.

### Policy

#### National forestation program fuels walnut plantation increase

Although the central government encourages walnut plantation as a way of generating income for farmers, it does not provide subsidies or support programs for walnut production. Some local governments in key production areas, however, provide free or subsidized seedlings to walnut growers. A national forestation program initiated in 1999 continues to facilitate plantations of economic trees (cash crops) including walnuts. The program provides cash subsidies to farmers who convert their grain crops on slope land into forestry and grassland to prevent soil erosion. As walnuts, chestnuts and jujube are classified as both ecological and economic plants, farmers choose to plant these types of trees in order to receive subsidies that can last for as long as eight years before new plantings start bearing fruit. While targeted slope areas under this program are decreasing, the official media reported that 137.7 billion yuan (\$US17.2 billion) will be allocated to the conversion program during 11<sup>th</sup> Five-Year-Plan (2006-2010).

#### High tariffs and VAT constrain imports of in-shell nuts

Import tariffs for tree nuts reached final bound rates in 2004 after China joined the WTO. Traders complain that tariffs remain high, especially for in-shell almonds and walnuts. In addition to the customs duties, importers need to pay 13 percent VAT. As a result, imported nuts are priced much higher than domestically produced ones. Chinese nut exporters receive

a five percent tax rebate after their products have been exported. Since current policy requires exporters to provide evidence showing their nuts are sourced from farmers, exporters argue that the policy is impractical and cumbersome.

#### Tree nut tariff and VAT rates for 2006

HS Code	Description	2006		Effective Rate
		Tariff	VAT	
0801.3100	Cashew nuts, in –shell	20.0%	13.0%	35.60%
0801.3200	Cashew nuts, shelled	10.0%	13.0%	24.30%
0802.1100	Almonds, in-shell	24.0%	13.0%	40.12%
0802.1200	Almonds, shelled	10.0%	13.0%	24.30%
0802.2200	Hazelnuts/Filberts, shelled	10.0%	13.0%	24.30%
0802.2100	Hazelnuts/Filberts, in-shell	25.0%	13.0%	41.25%
0802.3100	Walnuts, in-shell	25.0%	13.0%	41.25%
0802.3200	Walnuts, shelled	20.0%	13.0%	35.60%
0802.5000	Pistachios	10.0%	13.0%	24.30%
0802.9049	Macadamia nuts	24.0%	13.0%	40.12%
2008.1910	Walnut kernels, in airtight containers	20.0%	17.0%	40.40%
2008.1920	Other nuts, in airtight containers	13.0%	17.0%	28.70%

Source: China Customs

Both domestically marketed and imported nut products should observe the *Hygienic Standard for Nut* (GB16326-2005) (refer to GAIN report CH3087 for a draft version, the final version is almost identical). Although U.S. industry showed concerns about some parameters such as acid value and peroxide value being too stringent for U.S. walnuts, importers indicated no trouble shipping nuts into China.

#### Marketing

##### Traditional distribution network dominant in marketing activities of walnuts

After manual harvest, removal of husks, and drying in sun or by drying facilities, farmers sell in-shell walnuts to wholesalers who visit their orchards. Wholesalers then grade in-shell walnuts or shell the nuts for further distribution at wholesale markets and supermarkets. Processing companies normally buy in-shell or shelled walnuts from wholesalers and, after sorting and cleaning, nuts are packed airtight and exported in bulk or in retail-ready packages. Farmers sometimes store walnuts in their homes in anticipation of higher prices in the future. Cold storage facilities are found only in large processing plants.

##### Public awareness of health benefits associated with nut consumption

The most frequently used retail promotion methods are free tastings and discount sales. Retailers also advertise their products in publications that target institutional buyers. Additionally, processors developed new nut products or introduced new usages of nuts to boost sales volumes. Some groups have targeted their efforts on educating consumers on the health benefits of tree nut consumption through the use of posters and newspapers. In general, U.S. nuts have better quality but are priced higher than other competitors. Integrated approaches need to systematically be incorporating nuts for multiple uses, such as in bakery, confectionary, and ice-cream industries, and the focus should extend to the emerging markets in western cities. In the long run, stronger efforts should be placed on promoting health and nutritional facts about nut consumption through public awareness campaigns including the utilization of seminars and media.

## Tables

## Walnut Production, Supply and Demand (PSD) table

<b>PSD Table</b>						
<b>Country</b>	<b>China, Peoples Republic of</b>					
<b>Commodity</b>	<b>Walnuts, Inshell Basis</b>				<b>(HA)(1000 TREES)(MT)</b>	
	<b>2004</b>	<b>Revised</b>	<b>2005</b>	<b>Estimate</b>	<b>2006</b>	<b>Forecast</b>
	USDA Official [Old]	Post Estimate[ New]	USDA Official [Old]	Post Estimate[ New]	USDA Official [Old]	Post Estimate[ New]
<b>Market Year Begin</b>		<b>10/2004</b>		<b>10/2005</b>		<b>10/2006</b>
Area Planted	935000	935000	1009800	1200000	0	1380000
Area Harvested	790000	790000	858000	900000	0	966000
Bearing Trees	0	0	0	0	0	0
Non-Bearing Trees	0	0	0	0	0	0
Total Trees	0	0	0	0	0	0
Beginning Stocks	0	0	0	0	0	0
Production	360000	365000	388000	410000	0	425000
Imports	2438	2907	2800	5364	0	8400
TOTAL SUPPLY	362438	367907	390800	415364	0	433400
Exports	32980	34227	39500	37200	0	30000
Domestic Consumption	329458	333680	351300	378164	0	403400
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	362438	367907	390800	415364	0	433400



## Trade Matrix for Walnuts

<b>Export Trade Matrix</b>			
<b>Country</b>	China, Peoples Republic of		
<b>Commodity</b>	Walnuts, Inshell Basis		
Time Period		Units:	MT
Exports for:	2004		2005
U.S.	18	U.S.	165
Others		Others	
U.K.	7346	U.K.	7378
Japan	5569	Japan	5594
Canada	2253	Vietnam	3100
Germany	2296	Germany	3000
Vietnam	1373	Canada	2353
North Korea	1273	UAE	1728
Australia	1050	Taiwan	1200
Hong Kong	962	Australia	1168
UAE	800	Netherlands	1083
Taiwan	725	Turkey	905
Total for Others	23647		27509
Others not Listed	3959		6412
Grand Total	27624		34086

Note: Export numbers have been converted into in-shell basis using a ratio between in-shell and shelled of 1:0.4.

<b>Import Trade Matrix</b>			
<b>Country</b>	China, Peoples Republic of		
<b>Commodity</b>	Walnuts, Inshell Basis		
Time Period		Units:	MT
Imports for:	2004		2005
U.S.	2588	U.S.	3651
Others		Others	
Bulgaria	25	Kyrgyzstan	25
Laos	23	Japan	13
Japan	9	Peru	11
North Korea	8	South Africa	7
South Africa	6	Mexico	5
Australia	5	North Korea	3
China	5		
Total for Others	81		64
Others not Listed	0		2
Grand Total	2669		3717

Note: Import numbers have been converted into in-shell basis using a ratio between in-shell and shelled of 1:0.4.